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# THE GOVERNANCE OF SOCIAL ENTREPRENEURSHIP IN SOUTH AFRICA

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# **The Governance of Social Entrepreneurship in South Africa**

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## **Abstract:**

Social Entrepreneurship (SE) has become a global trend in recent years, combining efforts to bring about social innovation with entrepreneurial means. South Africa has the biggest and most diverse SE sector in sub-Saharan Africa and it is mainly home grown (Moreno Navarrete & Agapitova 2017). However, social entrepreneurship reflects historical, cultural, environmental and national developments (Barnard 2019, 3), which call for more concerted examination (Littlewood & Holt 2018, 525) and leave "the concept [...] still in its infancy in South Africa" (Claeyé 2017, 428). There are a few promising attempts to clarify and contextualize the concept of SE for sub-Saharan Africa (Karanda & Toledano 2012) and to identify chances and problems. Still, there is not much research on the interconnections between local governments, administrations, party organizations and their relationship and impact on the work of social enterprises.

Drawing on a review of the literature on governance in South Africa and empirical data, this paper explores SE's eco-systems and embeddedness in urban governance networks in South Africa, in order to identify key supportive traits of SEs eco-systems in South Africa, as well as obstacles.

**Keywords:** Social entrepreneurship, Enterprises, South Africa, Governance

## **1. Introduction**

Social Entrepreneurship has become a global trend in recent years, combining efforts to bring about social innovation with entrepreneurial means. Debates in academia mainly revolve around experiences from the global north, although we're witnessing a growth in literature that focuses on social entrepreneurship in different contexts in the global south (Pattinson & Wanjiro 2020; Rippon & Moodley 2012), following an increase of social enterprises on the ground (Chikadzi 2014, 593). Social entrepreneurship appears to be a highly promising concept to foster development and social innovation, especially for the global south, where governments might lack the capability to do so. It is therefore no surprise, that social enterprises are mushrooming in sub-Saharan Africa. South Africa has the biggest and most

divers SE sector in sub-Saharan Africa and it is mainly home grown (Moreno Navarrete & Agapitova 2017). However, social entrepreneurship reflects historical, cultural, environmental and national developments (Barnard 2019, 3), which call for more concerted examination (Littlewood & Holt 2018, 525) and leave "the concept [...] still in its infancy in South Africa" (Claeyé 2017, 428). One reason for this is, that SE is often used as a container term for diverse organizations lacking a specific legal form and a unitary regulatory framework to govern them (Lambooy et al. 2013; Urban 2013). Besides, the vast majority of organizations that might be counted as SEs are very small in size, typically informal, and operate solely on the local level (Barnard 2019, 3). There are a few promising attempts to clarify and contextualize the concept of SE for sub-Saharan Africa (Karanda & Toledano 2012; Littlewood & Holt 2017) and to identify opportunities and problems. The literature on SE's governance in South Africa and sub-Saharan Africa on a broader level mainly refers to their inner structure, management, legal form, and organizational specifications (Chikadzi 2014; Claeyé 2017; Urban 2008). What is missing is an approach focusing the governance networks connecting SEs, public officials and local governments. Government officials tend to recognize the potential of SEs to be more successful first, by building trust among the population, and second, by managing the delivery of highly needed social services in a less bureaucratic and more efficient manner. Local governments happen to be key funders and customers of SEs (Bacq et al. 2013; Shaw & Carter, 2007). Still, there is not much research on the interconnections between local governments, administrations, party organizations and their relationship and impact on the work of social enterprises.

Drawing on a review of the literature on governance in South Africa and empirical data, this paper explores SE's eco-systems and embeddedness in urban governance networks in South Africa, to identify key supportive traits of SEs eco-systems in South Africa, as well as obstacles.

## **2. Defining the Term for the Global South**

Although the concept of social entrepreneurship has been around for at least 30 years, we're still lacking a unified understanding of what it means, and there are lively debates around methodological (Kroeger & Weber 2014; Stevens et al. 2015), definitional (Choi & Majumdar 2014; Dacin et al. 2011), and theoretical issues (Agafonow 2014; Santos 2012).

Definitions of social entrepreneurship generally rest on variations of analytical and normative criteria, making the concept "an immense tent into which all manner of socially beneficial

activities fit "(Martin and Osberg 2007, 4). The lack of clarity has a deep impact on its useability. On the one hand, operationalizing the concept for empirical research can be tough. On the other hand, social entrepreneurship's lack of clarity opens the concept for use in different contexts, for different purposes, and within different disciplines.

Despite the variety of fields in which social entrepreneurship is being used, research can very broadly be aligned along two branches (Haugh 2005, 10): First, there's a corpus of literature focusing on enhancing theory, by analyzing conceptional, legal, and economic questions. Second, there's a field of research on practical issues aiming to improve practitioners' work. Even though the border between the two is not always as clear cut, as one might expect, since nothing is as practical as a good theory (Vansteenkiste & Sheldon 2006, 63), still they have developed differently. Theoretical approaches are usually found within social sciences, whereas the majority of contributions to the work on the ground appear in business and management literature. Still, both strands contribute to understanding the term and keeping it broad once more; we find two approaches to define social entrepreneurship. The first draws on the differentiation of means and ends. A Social Enterprise is therefore characterized by applying entrepreneurial means to a social end, although this leaves plenty of room for a discussion of what qualifies as entrepreneurial and what makes an end social. The first question is usually answered with reference to the organization having a business model, engaging in trade activities, and creating a surplus. The second question is a normative one and for research purposes, scholars have to develop a theory, whereas practitioners can usually rely on laws or regulations defining what qualifies as a social goal in a particular legal environment.

The second approach has its roots in some scholars criticizing the means/end differentiation for reducing the social aspect to the ends. Instead, they argue for higher demands in defining social entrepreneurship and not just expect the ends to qualify as social, but also the means used along the way: "The defining features of social enterprises are the goals pursued and the production modalities adopted, and not simply the goods and services produced." (Borzaga 2013, 318). Borzaga 2013 (319-320) further suggests taking three dimensions into account, in order to come to a proper conception of social entrepreneurship, the first being the economic-entrepreneurial one, the second the social dimension and the third being the ownership governance dimension. Taking this differentiation as a starting point, Borzaga develops three defining criteria for the first, two for the second, and four defining criteria for the third

dimension. The economic-entrepreneurial dimension asks social enterprises first, to continuously engage in the production of goods or the provision of services, second, to use costly production factors, and third, to be autonomous to a large extent and therefore take a significant level of economic risk. The social dimension requires social enterprises to pursue a specific social end for the community or a specific group of people and produce goods or provide services, which are characterized as applying to a general interest. The ownership-governance dimension presupposes: First, that SEs follow a collective dynamic involving the people they address. Second, that SEs implement decision-making processes not based on ownership. Third, that SEs are oriented toward stakeholders and use democratic management tools. Fourth, that SEs adopt a strict non-distribution constraint to rule out profit-maximizing behavior. It doesn't become clear whether Borzaga aims to define necessary or sufficient conditions. If we expect SEs to fulfill all of those criteria, the concept might become too ambitious, especially if we consider the global south where social entrepreneurial action takes many different forms, and informal structures are highly important.

The main body of literature on the concept of social entrepreneurship as well as empirical knowledge comes from the global north, mainly from European countries and the US. There we typically find sophisticated systems of laws and regulations governing all sorts of organizations no matter how small they are or what they're trying to achieve. This is not the case in the global south, where social entrepreneurship research is much younger than in the global north and the regulatory frameworks for SEs on the ground is often still in their infancy. In Africa, despite SEs becoming popular and an increasing number of scholarly studies being conducted, there is no unitary and popular definition of social entrepreneurship in place or what Steinman (2010) refers to as a "home grown definition". According to Teasdale (2012), the challenge of defining SEs in the African context is to capture a wide variety of organizations, many of them not formalized in a legal sense, which definitional approaches from the global north might not be able to integrate. In South Africa, for instance, Chikadzi (2013) posits that there is yet to be a formalized recognition of SE as a distinct form of organization. In describing SEs, different institutions use different terms and operationalize the concept in different ways. Littlewood & Holt (2015) posit that in South Africa, the term social enterprise is generally used for organizations that engage in economic activities, but pursue a social goal. They're part of the social economy and therefore can be differentiated from corporations on the one hand and non-profit organizations on the other hand. Another

frequently used, although very broad definition, is the one from the International Labour Organization (ILO), which defines social entrepreneurship as "sustainable market solutions to social problems," shifting the focus from the organizations to the processes of social change. A more elaborate definition is supported by the network of social entrepreneurs and enterprises in Africa that defines SEs as "the organizations social entrepreneurs have established to put their innovations into practice encompassing small community enterprises, co-operatives, NGOs using income generating strategies to become more sustainable, social businesses or companies that are driven by their desire to bring social or environmental change" (ASEN 2022). Here the concept is used as an umbrella term, including different kinds of organizations. While this might appear uncommon for the global north, this is highly important for South Africa, because there's no specific legal and regulatory framework for SEs. Social entrepreneurs therefor have to set up and run their organization under the overall legal and regulatory framework as either an association, a foundation, a cooperative or a classical corporation. Each option has its pros and cons and the best choice depends on what the social enterprise wants to achieve and how it wants to function. Just like in some European countries, for example, Germany, social enterprises in South Africa can not be identified with reference to their organizational and legal form alone. Their mission and how they're trying to accomplish it have to be considered.

This leads us back to the broad idea that social enterprises try to accomplish some kind of social mission through some kind of entrepreneurial activity (Dacin et al. 2011; Doherty et al. 2014). The long-lasting and unconcluded discourse on the definitional and conceptional features of social entrepreneurship proves that this broad insight does leave plenty of room for specification. Across the literature, scholars seem to agree that a prerequisite of social entrepreneurship is the identification of one or more social problems (Austin et al. 2006), which are "faced by people at a local level "(Mauksch 2012, 164) and "plague society, such as poverty, crime, and abuse "(Urban 2008, 347). With particular reference to Sub-Saharan Africa, Urban (2008, 347) identifies three categories of problems that potentially make a starting point for social entrepreneurial activities. The first category is political problems, such as cutbacks in the provision of social services through governmental entities. The second category is made up by economic issues, Urban mentions the reduction of funding for social initiatives by governmental agencies, which is not really an economic issue, but rather political and therefore seems to belong into Urban's first category (Urban 2008, 347). Category three

is the widest one containing underlying social problems in society, such as the erosion of traditional societal bonds, increasing complexity and transitions. The category of political problems appears to be particularly relevant for empirical research because the rise of SEs is closely related to a decreasing performance of, and people's disillusionment with, the welfare state (Leadbeater 1997, 16). Here social enterprises provide alternative measures to meet social needs, which are not or no longer adequately met by governments (Harding 2006, 10). Typically, SEs strive to have a significant societal impact by addressing social, economic and environmental problems. Unlike charities, foundations and classical non-profit organization, they gain profits by selling goods or services to either fund their social activities or which themselves are an integral part of the SE's social mission. Unlike traditional for-profit corporations, financial profits are not the main goal of a SE, and instead of redistributing them among its shareholders, profits are reinvested to sustain the enterprise and enable it to fulfill its social mission, which lies at the heart of the SE (Gonçalves et al. 2016; Etchart & Comolli 2013).

### **3. The Eco-System of Social Enterprises**

The term ecosystem here refers to the context in which an organization, like a social enterprise, operates. According to Ben Letaifa & Goglio-Primard (2016), entrepreneurs are never solitary agents, but part of a community and a society, where traditions, culture, socio-economic structure as well as legal and regulatory framework influences entrepreneurial action. SEs are neither established, nor exist in a vacuum, they're interwoven in a network of actors and institutions, such as government, economy, and non-profit sector as a whole. Which on the one hand influence the SE's adventure and on the other hand are themselves influenced by the SE. They're part of "an economic community of interacting actors that all affect each other through their activities, considering all relevant actors beyond the boundaries of a single industry" (Jacobides et al. 2018, 257).

The ecosystem metaphor highlights the dynamic and interactive dimensions of a network of actors co-creating value in a specific context of resources. Multiple actors contribute to the SEs ecosystem and not just actors, but also structures that shape the landscape of SEs and have a deep impact on their performance. Actors may include "individual enterprises, networks of enterprises, a range of intermediary or support organizations providing capacity-building and financial assistance, research and advocacy services including civil society

organizations e.g. CSOs and university and government programs, philanthropists, foundations, and impact investors, and the public policies that encompass all of these entities" (Etchart & Comolli 2013, 4). SEs rely on one another, and other actors and institutions, to gain the financial, social, and human resources needed to sustain and develop the SE and to pursue the social mission. They're part of "an economic community of interacting actors that all affect each other through their activities, considering all relevant actors beyond the boundaries of a single industry" (Jacobides et al. 2018, 257).

SE's eco-systems have become an area of growing interest throughout the 2010s, because it is assumed that the social, political, and legal structure, as well as the interconnectedness of economic, social, and political organizations and institutions deeply impact SE's activities and are highly relevant concerning the question of success or failure. As early as 2006, Mair & Marti drew insights from organizational theory, sociology, and political science to suggest emphasizing the interaction of SEs with their context, when analyzing social entrepreneurship. This goes along with the overall trend toward macro level analysis through which the embeddedness of SEs in their community and the governance networks they're integrated in, instead of just concerning the social entrepreneurs (micro level) or the social enterprises as organizations (meso-level), are likely to become the fulcrum of social entrepreneurship research. Understanding how ecosystems shape SEs and influence their work may help illuminate why and how they differ in different regions, and where to intervene to promote their work in particular situations.

Following this path, Pattinson & Wanjiru (2020, 310) point out four common challenges to SEs in sub-Saharan Africa, all four referring to their eco-system: first, policy and regulation, second, access to funding, third, the availability of infrastructure, and fourth, access to skills, information and networks. It is questionable if these are specific challenges in the global south, they do sound very familiar to the findings of international social entrepreneurship research, but of course, there are at least some factors influencing social entrepreneurship in the global south, which don't or at least commonly don't occur in the global north (Littlewood & Holt 2017, 53). Nevertheless, these four fields make a good starting point for the analysis of SEs eco-systems.



#### 4. SE's Eco-System in South Africa

SEs ecosystems may vary in different regions and the operation of SE's is highly influenced by regional differences in the cultural, political and socio-economic dimensions of their environments (Navarrete Moreno & Agapitova, 2017).

South Africa is a federal republic with nine provinces, an overall population of slightly more than 60 million and a GDP in total of around 350 billion USD or per capita of 5.900 USD. "South Africa adopted one of the most far-reaching systems of decentralization with the advent of democracy in the mid-1990s and enshrined local government autonomy within the constitution of 1996. "(Pieterse 2019, 20). However, the autonomy of local governments is limited in practice. Since they're neither allowed to run deficit budgets, nor tax income, they have to rely on property taxes, service charges and highly depend on finance transfers from the national level (Cartwright & Marrengane 2016, 3). This leads Buccus et al. (2008) to conclude that although government in South Africa is institutionalized as a federal system, "state power is mostly centralized in the national sphere, with only limited power devolved to provinces and local municipalities. "(Buccus et al. 2008, 299). However, the federal structure is reflected in the distribution of SEs and non-profit organizations as a whole. Almost a third of all South African nonprofits are based in the Gauteng province, followed by Kwazulu Natal with 20%. This leaves more than a half of the non-profit sector to just two provinces, although it should be taken into account, that these two provinces also make up for more than one third of South Africa's population. "Between 1996 and 2011 the national population grew by 28 percent "(Cartwright & Marrengere 2016, 3) and growth rates are especially high in the urban center's such as Johannesburg and Cape Town.

Today, the discussion on SEs and they're eco-systems draws largely from understandings, experiences, and data from the global north, especially the United States and European countries (Littlewood & Holt, 2018). In emerging economies, there is limited research in the field of social entrepreneurship (Littlewood & Holt, 2018) and "the vast majority of social enterprises in South Africa are extremely small, i.e. micro social enterprises. They are typically informal and operate locally – in a single "township" (historically black residential area) or suburb. They have a median of 53 beneficiaries and 8 employees, and 70% of social enterprises polled have a total annual income of less than ZAR 300.000" (18.675 \$; 17.850 EUR) (Barnard 2019, 3). Still, South Africa has the biggest non-profit sector on the African continent and one with a long tradition and a big variety of organizations, such as faith-based organizations,

social enterprises and community-based organizations (Van Pletzen et al. 2014). Since 1994, SEs and nonprofits serve as key drivers of social support and address significant gaps that are not covered by the government or for-profit businesses (Choto et al. 2020). The non-profit organizations act of 1997 and tax and funding reforms propelled the growth of the non-profit sector (Habib 2005) and are seen as a major step stone for the recent boom of SEs. In the early 2000s, the South African government initiated the expanded public works program to increase the service delivery to citizens and reduce poverty (Van Platzen et al. 2014). This opened a window of opportunity for SEs and non-profits in general to "support governments to assist the vulnerable sectors of society through anti-poverty measures and to provide social safety nets where governments cannot" (Feinstein International Center 2010).

#### **4.1. Legal forms of SEs in South Africa**

The character of SEs, their organizational form and their relations to other organizations and public authorities are first guided by their legal status. In South Africa, there's neither a particular legal form for SEs, nor a unitary regulatory framework to govern their relations with public administrations and local governments (Moreno Navarrete & Agapitova 2017; Claeys 2017; Steinman & van Rooij 2012; Urban 2013). Not just in South Africa but in many countries all over the world, SEs lack a specific legal definition and can take different legal and organizational forms. In general, SEs in South Africa can be sorted into three categories. First, they can be a non-profit entity and take the legal form of a voluntary organization, a trust or a non-profit company (Section 21 company). Second, SEs may qualify as for-profit entities and take either the legal form of a cooperative or of a corporation. Third, especially large SEs are likely to have a hybrid character, combining two or more legal entities under one roof (Littlewood & Holt 2018 540). Various factors potentially influence the choice of a legal structure for an SE, including the size of the organization, the social mission, the requirements of funders and partners, and the eco-system in which the organization seeks to operate in.

#### 4.2. Legal forms and management structures of not-for-profit SEs in South Africa<sup>1</sup>

	<b>Voluntary Associations</b>	<b>Charitable Trusts</b>	<b>Section 21 Companies</b>
<b>Definition</b>	Voluntary associations refer to groups of three or more individuals who form an organisation to achieve a non-profit objective, and are governed by a written agreement or founding document (constitution).	Trusts are arrangements set out in trust deeds in which an owner hands over property and/or funds to a group of people (trustees) for administration for the benefit of other people (beneficiaries) for a stated objective.	Not-for-profit companies (NPCs), which are associations that are incorporated but not for gain, and are governed by the Companies Act of 2008, and referred to as Section 21 companies (2008).
<b>Formation</b>	<ul style="list-style-type: none"> <li>No formal requirements. Three or more people can enter into a contract verbally or in writing.</li> <li>No government registry with which you must register</li> </ul>	Registration at Master of the High Court Required staff: 1 settlor, 1 trustee and 1 beneficiary (cannot be the same person)	Give notice of incorporation at CIPC Members Agreement (Optional) Required staff: 3 directors, members are optional
<b>Constitutive document</b>	Constitution sets out the agreed rules which will govern the VA	Trust Deed	Memorandum of Incorporation
<b>Key participants</b>	Members	Founder	Directors, Members (optional)

<sup>1</sup> For the charts I like to thank Roselyne Cheruiyot and Keratilo Mogotsi from the Centre on African Philanthropy and Social Investment (CAPSI) at the Wits Business School at the University of the Witwatersrand in Johannesburg, South Africa.

<b>Governing law</b>	Common law	Trust Property	Companies Act
<b>Management structure</b>	<ul style="list-style-type: none"> <li>• Low governance level.</li> <li>• Usually, the constitution provides for the appointment of a group of people with executive powers, such as an executive committee, to manage the affairs of the VA subject to the terms of the constitution.</li> </ul>	<ul style="list-style-type: none"> <li>• Low governance level.</li> </ul>	<p>Members exercise their powers in general meetings</p> <p>Annual members meeting</p> <ul style="list-style-type: none"> <li>• Audited financial statements</li> <li>• (if assets exceed R5 million)</li> <li>• Independent review of financial statements (if not audited)</li> <li>• Social and ethic committee (depending on size)</li> <li>• Company secretariat (optional)</li> </ul>
<b>In charge of management</b>	members	trustees	Board of directors
<b>Capital acquisition</b>	<ul style="list-style-type: none"> <li>• Membership fees</li> <li>• Member contribution</li> </ul>	Initial donation	<ul style="list-style-type: none"> <li>• Membership fees</li> <li>• Donations</li> </ul>
<b>Continuation</b>	Perpetual succession	Perpetual succession	Perpetual succession
<b>Winding up</b>	Distribution to members	Distribution to beneficiaries	No distribution - assets transferred to similar organization

#### 4.3. Legal forms and management structures of for-profit SEs in South Africa

	<b>Partnership</b>	<b>Private company</b>	<b>Co-operatives</b>
<b>Formation</b>	No formal requirement	Filing notice of incorporation	Filing application at CIPC

		at CIPC	
<b>Constitutive document</b>	Partnership Agreement	Memorandum of Incorporation	Constitution
<b>Key participants</b>	Partners (and possibly general partner)	Shareholders	Members
<b>Governing law</b>	Common Law	Companies Act	Co-operatives Act
<b>Management structure</b>	No requirement	Shareholder meetings Board Meetings <ul style="list-style-type: none"> <li>• Audited financial statements (depending on size)</li> <li>• annual general meetings (depending on size)</li> <li>• social and ethics committee (depending on size)</li> <li>• company secretary optional</li> </ul>	Member Meetings <ul style="list-style-type: none"> <li>• Annual member meetings</li> <li>• Audited / Reviewed / Unreviewed financial statements</li> <li>• Auditor appointment (if audited financials required)</li> <li>• Activity plan</li> </ul>
<b>In charge of management</b>	No requirement	Board of directors	Board of directors
<b>Capital acquisition</b>	Capital Contribution (committed capital)	Securities (shares, debt instrument)	<ul style="list-style-type: none"> <li>• Share Subscription</li> <li>• Member contribution</li> </ul>
<b>Continuation</b>	No Perpetual Succession	Perpetual Succession	Perpetual Succession
<b>Winding up</b>	Distribution to partners	Distribution to members	Variable but distribution to members default

#### **4.4. Policy and Regulation**

In absence of a legal and regulatory framework specifically tailored for SEs, they're governed by a network of regulations and policies from different governmental institutions. The National Department of Development and the National Department of Health both have sections in charge of dealing with non-profit organizations in general (NPO Directorate & NPO Partnership Unit), and many of their regulations also apply to SEs. Particularly important is the Tax Exemption Unit of the South African Revenue Service, for they're in charge of deciding who qualifies as a non-profit and may get tax exemption and who doesn't.

Although there's no legal framework specific to SEs, a number of laws and regulations for businesses and non-profit organizations have been implemented since the end of Apartheid in 1994 and many of them also apply to SEs.

- 1996: National Small Enterprise Act (Act No. 102 of 1996)
- 2003: National Enterprise Amendment Act (Act No. 26 of 2003)
- 2004: National Small Enterprises Act (Act No. 29 of 2004)

These three regulations have been installed for small businesses to encourage people to start a business and foster economic growth.

- 1997: Non-profit Organizations Act.

The Non-Profit Act has been specially set up to regulate the growing non-profit sector, which has been identified as an important player in economic and social life, particularly in providing goods and services in less favored communities and neighborhoods.

- 1998: The Skills Development Act
- 1999: Skills Development Levy Act
- 2012: National Skills Development Strategy III

The South African governments have taken many steps to improve the education and the skills of the people. A lack of education and practical skills is a major reason for unemployment, which is a serious burden for South African society and a major reason for poverty, crime and many other social ills. Supporting education and training is therefore also support of economic development, social security and safety.

- 2003: Broad-Based Black Economic Empowerment Act(B-BBEE).

The B-BBEE act aims at promoting South Africa's black population to engage in economic activities. Although the black population in South Africa makes up almost 80% of the population, they have been highly underrepresented in the public and private sector due to the pre-1994 Apartheid policies and their shadows. With the B-BBEE act of 2003, the government wants to assure that the black majority population gets easier access to the public and private sector and end the unequal representation of South Africans there.

#### **4.5. Funding**

No adventure without resources and every enterprise needs at least two kinds of resources: funds and staff (human capital). Social enterprises are not exempt. The availability of both, qualified staff and funding opportunities is crucial for the development and success of SEs. Empirical studies show that many representatives of SEs worldwide believe access to funding is the most pressing issue for their organization (Bloom & Dees 2007; Letaifa 2016; Roundy et al. 2017). With particular reference to sub-Saharan Africa, most organizations' representatives mention a lack of funding as the major barrier to their organization's success and a threat to their organization's existence (Smith & Darko 2014). In particular for start-ups and organizations in their youth, building up a solid base of funding and establishing reliable channels to generate income is a heavy task. Fatoki & Odeyemi (2010) highlight that those problems are the primary reasons for young and small-scale SEs in South Africa to fail. About 80% of South Africa's small-scale enterprises vanish within the first year of operation, which leaves South Africa with one of the world's lowest survival rates for small-scale enterprises. For SEs, which always have to keep an eye on their social mission while searching for funding, it appears to be important to diversify their sources of funding in order to create a stable network, allowing the pursuit of the social mission over time without turning too dependent on single donors, investors or customers. With the growth and diversification of the third sector as a whole in South Africa, funding options develop accordingly. Larger organizations usually rely on a network of sources, including but not limited to the entrepreneurial means of selling goods and services to customers. As the field grows and matures, there are various funding structures and channels through which SEs and NPOs can access finance. These sources can be internal or external and may include grants/donations, venture philanthropy, loan guarantees, equity, quasi-equity debt, pooling, crowdfunding, social impact bonds, debt, angel investors, Mezzanine finance, Patient capital or the help of friends and family. Family

and freinda can be particularly important for small-scale and less formal organizations, where the chances to access other income channels are typically rather low.

SE's potential funding sources can be split up into internal and external funds, which both may appear in different forms. Internal funds are the personal funds of the organization's founders and the income generated through the entrepreneurial activity, the sale of goods and services to customers or the target group of the organization's social mission (Achleitner et al. 2014; Bugg-Levine et al. 2012). Especially for small-scale organizations and those still at an early stage of their development internal funds are usually the only available sources of funding. The main reason for this being potential donors and investors preferring larger and more mature organizations, which are believed to be more resilient and investments with them therefore less risky. This leaves most start-ups and small-scale organizations with the need to invest personal funds to prove their social business plan working and make the organization grow, before they can successfully reach out to external sources of funding and broaden their base. This step is crucial for many SEs in South Africa, because the majority of SEs can't live solely off their internal funds and therefore sooner or later has to turn to external sources to keep their enterprise going (Jonsson & Lindbergh 2013). External funding sources include equity, debts, mezzanine capital, social impact bonds, donations, hybrid forms of investments and, most importantly, government subsidies and public-private-partnerships (Achleitner et al. 2014; Bugg-Levine et al. 2012; Navarrete Moreno & Agapitova 2017).

#### **4.6. Infrastructure**

Infrastructure is a necessary means for all economic activity. Hence, it's no surprise that the level of infrastructure in a country or region impacts the economic landscape. Just like any enterprise, also SEs depend on the provision of infrastructure and can flourish where good infrastructure is available and are facing hard times, whenever this is not the case (Roundy et al. 2017). In a broad sense, infrastructure here includes all means of transport and communication, supply structures for water, food, and energy. In sub-Saharan Africa, the quality of infrastructure has greatly improved over the last years, with South Africa representing the highest standards. Transport and communication infrastructure is on a high level in comparison to other sub-Saharan countries, and the same is true for the supply systems for water, food and energy. A solid telecommunications network allows for a rapid flow of information, which helps SEs to connect with customers, clients and funders and helps



to ensure access to information. IT infrastructure is generally good in South Africa, although costs for cell phone communication and Internet services are rather expensive.

Still, compared to countries in the global north, some infrastructural issues can negatively impact the work of SEs. The supply of electricity is not always stable, the government is trying to change this by propelling the development of renewable energies (Navarrete Moreno & Agapitova 2017). More influential for the successful work of SEs seems to be the unequal availability of means of transport to urban and rural areas, as well as to the upper and middle class on the one hand and disadvantaged neighborhoods and citizens on the other. While urban areas have good road systems and public transport, many rural areas lack transport options, particularly for those who cannot afford a car or similar forms of private transport. For SEs this is important for two reasons. First, it impacts how they can bring their goods and services to customers and the target group of their social mission. Second, it influences the availability of staff, since employees need to be able to get to their work place and if this is more costly and takes more time, the costs for staff are going to be higher.

However, limited access to parts of the overall infrastructure typically affects disadvantaged communities and lower income households, which ironically are the areas, where SE's engagement is needed most (Ben Letaifa 2016).

#### **4.7. Human Capital**

SEs operate in complex eco-systems that require them to gain funding and skilled staff (Diaz Gonzalez et al. 2021). The successful management of an organization requires some form of qualification, either formal or informal, training, skills, and experience. The importance of formal education is rising as organizations grow in size and their activities become more complex. Human capital thereby refers to the skills and knowledge acquired through formal education, training, and work experience, and it contributes to productivity and success (Unger et al. 2011).

Compared to other sub-Saharan countries, public and private education are high in South Africa. Most schools are public schools and attendance is compulsory up to 9<sup>th</sup> grade. About 28% of high school graduates qualify to study at university, and South Africa is home to some of the best universities on the African continent. There are several university courses on social entrepreneurship at South African Universities, contributing to the formal education of potential founders and managers of SEs and help building up a strong base of human capital. Apart from universities, there's a number of other organizations offering education and

training programs for SEs, e.g., the Social Enterprise Academy Africa (SEAA), the Gordon Institute of Business Science's Network for Social Entrepreneurs, or the African Social Enterprise Network. Despite this development, South Africa faces serious human capital challenges as more than half of the country's young people are entering the labour market without qualification and more than 30% of young adults are neither in education or training, nor employed. To address this issue, different institutions are stepping in and offer training and support to SEs and potential employees. There's a trend toward the development of capacity-support structures for social enterprise. These include both the more traditional players such as government institutions and universities, as well as newly emerging ones such as incubators and non-profits or SEs (Etchart & Comolli 2013). The government offers support for Human Capital development through a series of training programs aiming at increasing the commercial skills of entrepreneurs and managers, as well as through various government agencies, such as Small Enterprise Development Agency (SEDA), the National Youth Development Agency, and municipalities, providing financial support to SEs. Many new players, like incubators, non-profits, and even some SEs, support the capacity building of SEs and offer education and training programs to (other) SE's staff or founders

## **5. Governance Networks of SEs in South Africa**

Although, we face a lack in research on the relationships of different branches of government and SEs in sub-Saharan Africa, particularly concerning regional and local governments in urban communities where SEs are most active, those relations are highly important. Each side has a big potential to support the other. On the one hand, and in accordance with findings from European contexts, the government emerged as a key funder of SEs in South Africa (Bacq et al. 2013; Shaw & Carter 2007). As for non-profit organizations in general, the government is the biggest donor for non-profit SEs. Yet, since SEs are characterized by engaging in business activity and offering goods and services, the government is also an important trading partner to SEs (Barnard 2019, 3). Governmental institutions offer support in form of funds, supportive regulation, or training and education. At the same time, they're customers for the goods and services provided by SEs. On the other hand, along with private sector organizations, informal business organizations, civil society organizations, traditional leaders, and political parties, SEs are players in urban governance in African cities. "These organisations often, in practice, perform roles undertaken by the state in cities in the global North, such as providing basic

services, allocating land, ensuring safety, providing social security nets, and so on." (Smit 2018, 56). A variety of stakeholders is engaged and in charge of basic governance issues, but often times capacities are limited and interests conflicting (Smit 2018, 55).

Against this background, SEs have the potential not just to function as providers of goods and services, but also to open pathways for public participation. The general shift of focus from government, as top-down decision making and implementing, to governance in varying institutional arrangements reflects a growing interest in questions of public participation in political decision-making processes. This is not just the case within academia, but also in South Africa Politics. South Africa is a special case for analyzing public participation and the role of civil society in general and SEs in particular hereby. There are three reasons for this. First, South African democracy is rather young. Through the Apartheid era, the vast majority of the population had no access to government and no say in political decision-making, therefore questions of public participation didn't arise. "Since the demise of apartheid in the early-1990s, all citizens of South Africa have equal rights to vote, to move throughout the city, and to influence and engage with a single united government structure at the local, provincial and national level." (Lemanski 2017, 5). Second, in developing a democratic state, South African governments have installed many ways of public participation, especially on the local level. "[S]everal provincial governments [...] have implemented a process to develop guidelines and programmes to ensure that public participation obligations are adequately met." (Buccus et al. 2008, 298). Third, South Africa has the biggest third sector in sub-Saharan Africa, so the contribution of CSOs and SEs in public policy seems to be particularly important here. In fact, the involvement of community organizations in local government is outlined in the constitution and major international organizations, such as the World Bank, require governments to collaborate with CSOs, which has a deep impact on the governance structures in many countries of the global South. The idea behind this policy is to strengthen civil society and localize democracy to secure democracy and of course, to support economic development and financial stability (Harpham & Boatang 1997; Pieterse 2002; Williams 2004).

Nevertheless, we don't have to search for too long, to find critical voices on public participation in South Africa in general and on CSOs or SEs involvement in particular. For instance, Buccus et al. (2008) point out that political participation of non-governmental organizations is limited to consulting government officials, leaving them with no own power in decision-making processes. "In addition to requiring that local councils consult communities

on key municipal processes, the Municipal Structures Act of 1998 establishes ward committees. Consisting of ten people and chaired by the ward councillor, ward committees are intended to act as the main means of communication between the council and local communities. Notably, however, as with the national and provincial spheres, legislation makes it clear that decisionmaking powers rest with council alone" (Buccus et al. 2008, 300). This might be why surveys report rather low levels of participation and rather high levels of dissatisfaction with government's performance, in some center staged policy fields. For example, in a 2011 quality of life survey based on 17,000 interviews in South Africa's Gauteng province, 53% indicated dissatisfaction with the level of public safety (Cartwright & Marrengane 2016, 20). Cornwall (2004) attracts notice to the fact that most institutions for citizen's public participation, either directly or through organizations, are not set up by the people themselves, but externally installed by the government. Sinwell (2010) believes this to be a cause of the participatory institutions being ineffective in strengthening citizens' influence on political decisions, and Lemanski (2017) believes them to function as a "mask for top-down development". Following the same path of argumentation, although not referring to a particular case, but to theory, Swyngedouw (2005) is cautious about government installed and managed governance networks, fearing they would deal with government problems, instead of the citizen problems and privilege unrepresentative players, since not every citizen has equal access to the engaging institutions and organizations. Connecting this argument to the case of South Africa, Lemanski (2017) highlights the "historic and contemporary socio-economic and spatial inequality" as a barrier to equal participation.

Still, South Africa has a long history of grassroot activism, neighborhood organizations and informal businesses. The growth of the civil society and SEs rests on this tradition and bears the potential to open up measures of public participation, which grant a more equal access to decision-making process and therefore support the development of democracy.

## **6. Conclusion**

The eco-system in which a SE operates is influenced by very many aspects and only a few of those were taken into account here, although surely important ones. The legal environment for SEs in South Africa has supportive traits for SEs successful management, as well as some less supportive. First of all, there's the lack of a specific legal form, as well as a specific legal and regulatory framework for SEs. This might appear as an obstacle, but the case is not clear

here. On the one hand, a legal form and a regulatory framework tailored to the requirements of SEs could make it easier to start an SE, especially when considered that there's a big workforce of potential founders or employees to SEs, that don't have high levels of legal and management skills and therefore are likely to struggle with the complexity of the current legal and regulatory framework for SEs. One specified framework would make things easier here. On the other hand, the current lack of a specific legal form, as well as a specific legal and regulatory framework, leaves founders and managers with a variety of available options to choose from. Whatever an entrepreneur's goal might be, and whatever business model is preferred, it is very likely that there's a feasible legal form available. Besides, it is likely, that an answer to the question, which legal form is best for me, varies in accordance with the social mission and/or the chosen business model of an SE. More choice raises the probability that differing requirements can be met adequately and hybrid structures allow to combine legal forms to make the best possible arrangement.

The policy and regulation field shares with the legal framework the lack of a specific arrangements for SEs. Still, in South Africa there're quite a lot of policies targeted at the support of either non-profit organizations or businesses, especially small businesses, which also apply to SEs. In a nut shell, those policies aim to encourage people to start businesses by reducing obstacles. With the major obstacles being a difficult access to funding and a lack of education and skills, public policies either try to make funding available or offer education and training. However, high levels of bureaucracy, clientelism, and a tendency to politicize social services bear the risk that governmental support policies privilege specific organizations or policy fields at the expense of others and threaten the development of the SE sector, instead of promoting it.

Funding appears to be the elephant in the room and this is not a South African phenomenon, but typical for SEs all over the world. All internationally common sources of funding for SEs, reaching from donations, investments and sales activities, all the way to government contracts and subsidies are generally available to South African SEs. Still, in reality, the socio-economic situation is a tough challenge for South African SEs, especially in comparison to SE's in European countries or the US. Unemployment, poverty rates, and the level of inequality are high. In fact, this has a twofold effect on SEs eco-system. On the one hand, there's a lot of work to do and many chances for SEs to make a difference. On the other hand, with regard to funding opportunities, socio-economic struggles are a serious burden.

South Africa's infrastructure is good. Transport, communication, IT infrastructure, and supply systems for water, food, and energy are on top level, compared to other sub-Saharan countries. Although in comparison also representing a high level, unequal availability of means of transport to urban and rural areas, as well as to the upper and middle class on the one hand and disadvantaged neighborhoods can turn out to be an obstacle for SEs, when they either lack feasible options to get their goods and services to their customers, or it decreases the availability of staff.

Basic and higher education are both generally on a rather high level in South Africa. However, many young adults lack formal qualifications and/or skills needed for successful participation in the job market. This is one reason for relatively high rates of unemployment in South Africa, for SEs having difficulties finding qualified staff, as well as for a rather small survival rate of small businesses. The government is aware of this problem and is tackling it by means of supportive policies and public-private cooperation.

Located within the third sector and brought to life by citizens themselves, SEs can further play a role in public participation and decision-making. South Africa's federal and multi-level political systems allows for organized citizen's interests to participate in governance networks and there seems to be quite a strong political will to foster participation. However, most channels through which organizations can participate in governance processes are installed and run by the government, reducing the role of private organizations to consultants of government officials. Fortunately, grassroots organizations have a long history in South Africa and they bear the potential to raise public participation and help strengthen South African Democracy.

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